

## MEMORANDUM

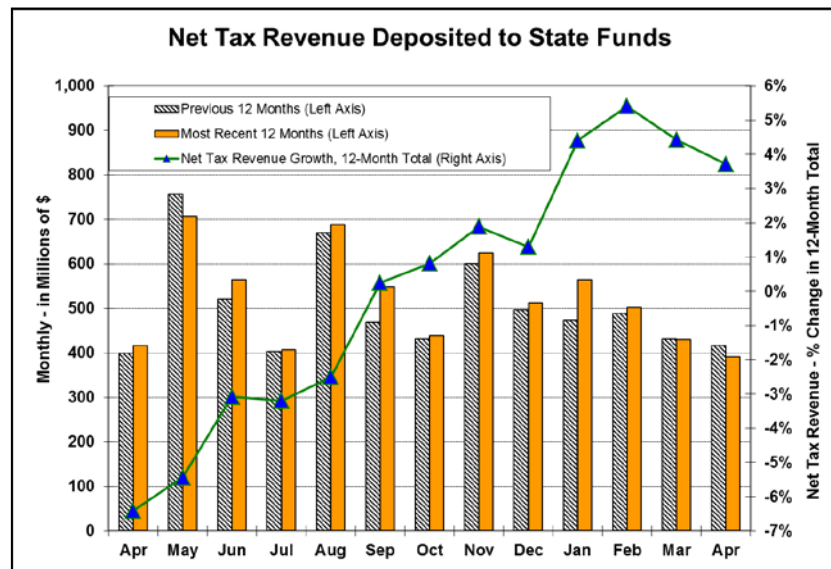
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: May 27, 2011

### Twelve-month Total Net Tax Receipts Through April 30, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending April 2011 with comparisons to the previous twelve months. April 2010 to April 2011 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

At \$390.5 million, April 2011 net tax revenue was 6.0% below April 2010. April 2011 ended on a weekend and that contributed greatly to the decline. Tax refunds also provided a drag on net revenue in April. Finally, a gambling deposit calendar issue that provided a boost to March receipts reversed in April. Growth highlights for the month include individual income tax withholding and fuel tax revenue. At \$6.378 billion, annual revenue is now at a level first reached in October 2007 and the total is 5.6% below the November 2008 net revenue peak.

## Month of April Comparison

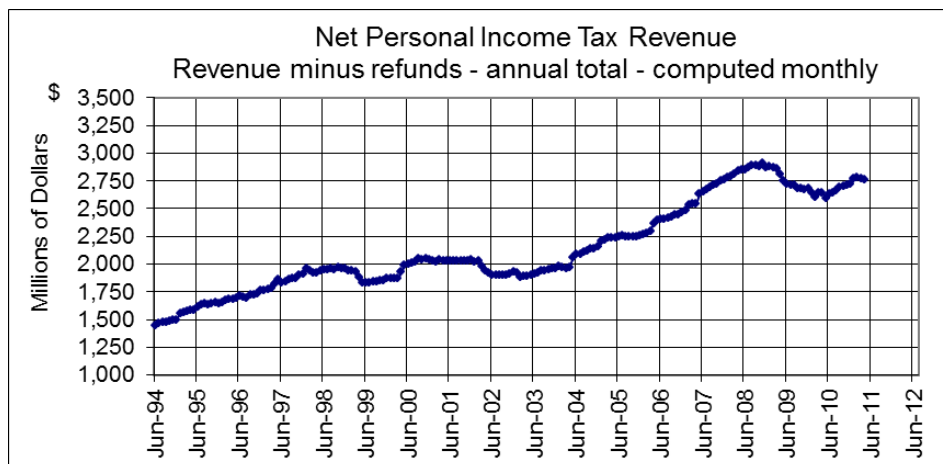
April net tax receipts totaled \$390.5 million, a decrease of \$24.9 million (-6.0%) compared to April 2010. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$13.3 million, -7.8%) – A strong \$17.4 million (5.7%) increase in gross tax revenue was more than offset by a \$30.7 million increase in income tax refunds.
- Sales/Use Tax (negative \$0.4 million, -0.4%)
  - Road Use Tax Fund use tax (fees for new registrations) has now been positive in eleven of the past twelve months and there have been double digit percentage increases for six consecutive months.
  - Gross General Fund sales/use tax receipts decreased \$4.9 million (-4.0%) while refunds increased \$4.1 million and school infrastructure refunds decreased \$3.7 million.
- Corporate Income Tax (negative \$5.6 million, -13.9%) – Gross corporate income tax receipts decreased \$20.3 million while corporate refunds decreased \$14.7 million.
- Fuel Tax (positive \$5.0 million, 16.0%) – A \$1.3 million increase in gross fuel tax deposits was bolstered by a \$3.7 million decrease in fuel tax refunds.
- Cigarette and Tobacco Taxes (negative \$1.0 million, -5.0%)
- Gambling Tax (negative \$5.2 million, -17.9%) – Gambling revenue is generally deposited on Thursdays and April 2010 had five Thursdays. The five-Thursday month occurred in March 2011, so this decrease is just the offset to a large deposit timing increase that occurred this past March.

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending April 2011, net revenue from all taxes deposited to State funds totaled \$6.378 billion, an increase of \$228.0 million (3.7%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$123.0 million, 4.7%) – Individual income tax revenue continues to show good year-over-year growth, but the trend slowed during the tax return season due to the issuance of increased tax refunds.



- Sales/Use Tax (positive \$124.7 million, 5.9%) – Like individual income tax receipts, net sales/use tax revenue was negative year-over-year in August 2010 and the turn around since that month has been significant.
- Corporate Income Tax (negative \$30.3 million, -12.8%) – At \$205.6 million, net corporate tax revenue is below the level experienced through much of the mid to late 1990s.
- Fuel Tax (positive \$6.9 million, 1.6%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 4.6% while taxable diesel sales increased 7.0%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are still 4.3% lower than the March 2008 peak sales level.
- Gambling Tax (negative \$4.1 million, -1.5%) – According to Racing and Gaming Commission statistics, four of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending April 2011. The combined AGR growth for the 17 facilities was positive 0.73% over the 12-month period and the data show that annual AGR for the 17 casino/track locations bottomed in November 2010 at \$1.360 billion, 4.6% below the February 2009 peak.
- Cigarette and Tobacco Tax (negative \$2.0, -0.9%)
- Insurance Premium Tax (positive \$19.6 million, 24.6%) – The increase is likely the result of fewer redemptions of tax credits compared to last year.

### **Tax Spotlight – Cigarette Tax and Tobacco Tax**

Tobacco products are taxed under the authority of Iowa Code Chapter 453A. Based on law changes during the 2007 Legislative Session:

- Cigarettes and little cigars are taxed at \$.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price per cigar, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.

The Iowa cigarette tax was first enacted at a rate of \$.02 per pack of 20 cigarettes (HF 678, Cigarette Tax Act of 1921). The cigarette tax rate was increased periodically and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack and then increased in 1991 to \$0.36 per pack. The tax remained at \$0.36 per pack until the 2007 Legislative Session. The current State tax rates went into effect on March 16, 2007.

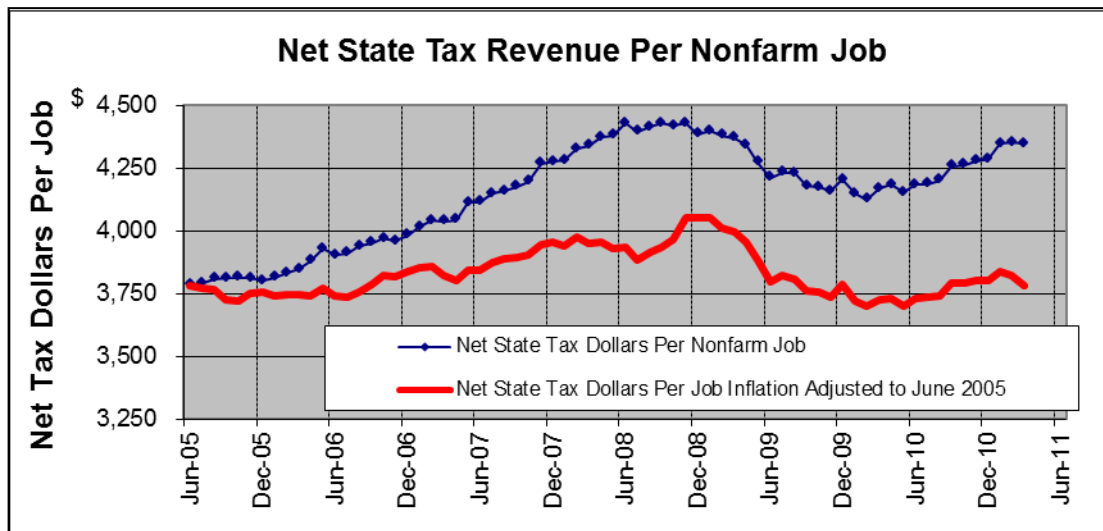
The tobacco tax was enacted in 1967 at a rate of 10.0% of the wholesale price (HF 702, Division 1, Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette tax returns are to be filed by the holder of a state or manufacturer's permit by the 10th day of each month for the preceding calendar month. Tobacco (other than cigarettes) tax returns must be filed by

the 20th day of each month for the preceding calendar month. Revenue received from the cigarette and tobacco tax is deposited in the State General Fund.

### Tax Revenue and Employment

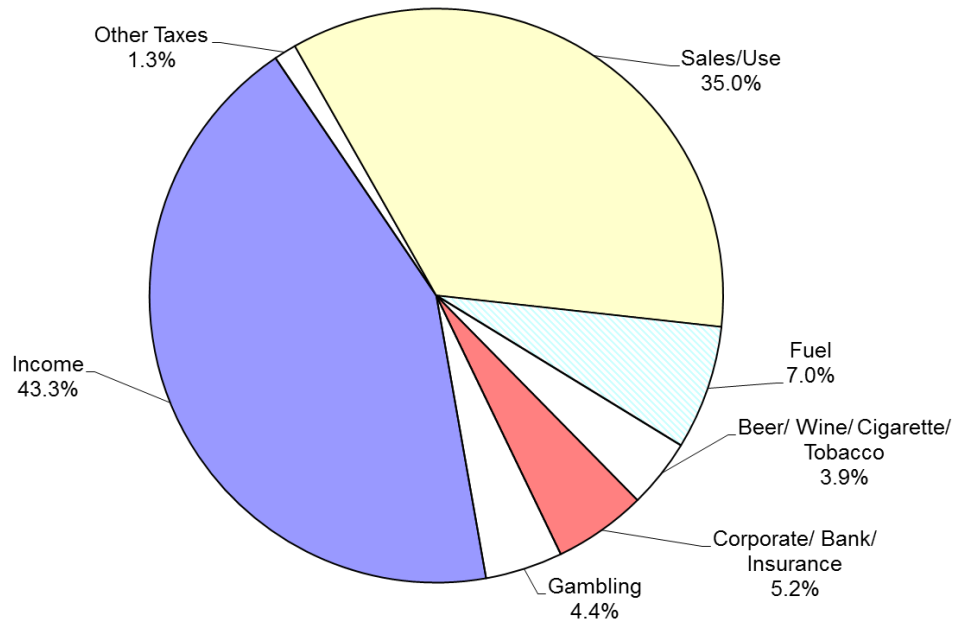
The average reading for Iowa nonfarm employment over the 12 months ending March 2011 is 1,472,600 and net State tax receipts over the same twelve months totaled \$6.403 billion, or \$4,348 per nonfarm job. This is \$563 (14.9%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 14.9%. Therefore, State tax revenue per job has equaled the rate of inflation since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job and inflation-adjusted tax collections per job.



## Net State Tax Revenue - Twelve Months Ending April 2011

**Net Revenue = \$6.378 Billion**

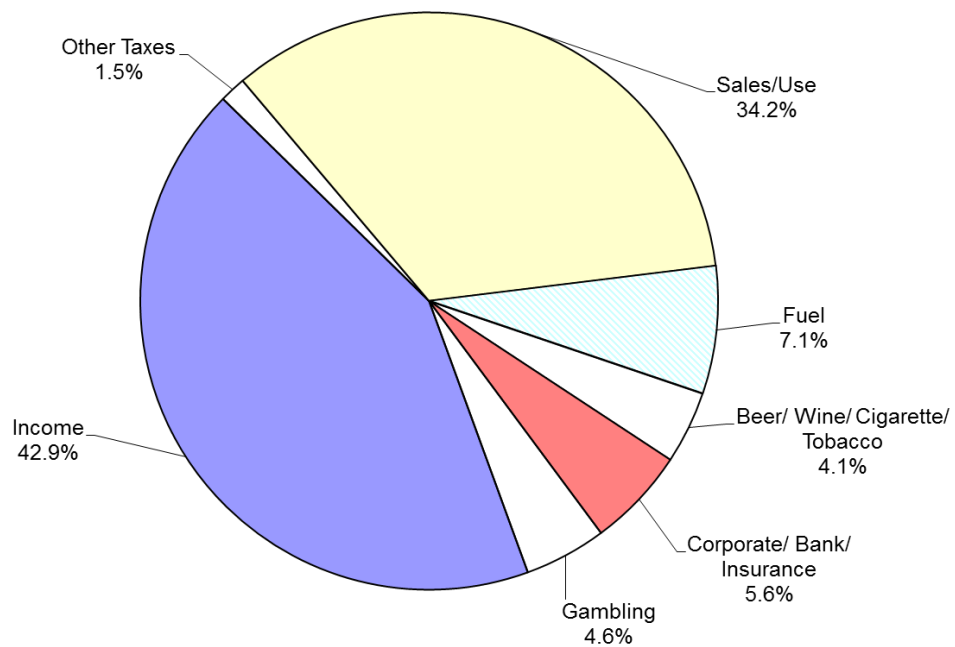
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending April 2010

**Net Revenue = \$6.150 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of April 2010</b>	<b>Month of April 2011</b>	<b>April \$ Change</b>	<b>April % Change</b>
Banking	\$ 27.9	\$ 28.2	\$ 0.3	1.1%	\$ 5.0	\$ 1.0	\$ - 4.0	-80.0%
Beer & Wine	21.2	21.3	0.1	0.5%	1.7	1.7	0.0	0.0%
Cigarette & Tobacco	228.7	226.7	- 2.0	-0.9%	19.9	18.9	- 1.0	-5.0%
Corporate Income	235.9	205.6	- 30.3	-12.8%	40.3	34.7	- 5.6	-13.9%
Fuel	439.4	446.3	6.9	1.6%	31.2	36.2	5.0	16.0%
Gambling	282.6	278.5	- 4.1	-1.5%	29.1	23.9	- 5.2	-17.9%
Individual Income	2,638.6	2,761.6	123.0	4.7%	170.6	157.3	- 13.3	-7.8%
Inheritance	69.6	62.2	- 7.4	-10.6%	4.8	3.6	- 1.2	-25.0%
Insurance	79.8	99.4	19.6	24.6%	0.0	0.0	0.0	--
Other Taxes	8.4	4.5	- 3.9	-46.4%	- 0.4	0.1	0.5	--
Real Estate Transfer	13.0	14.1	1.1	8.5%	0.8	1.1	0.3	37.5%
Sales/Use	2,104.6	2,229.3	124.7	5.9%	112.4	112.0	- 0.4	-0.4%
<b>Total Net Taxes</b>	<b>\$ 6,149.7</b>	<b>\$ 6,377.7</b>	<b>\$ 228.0</b>	<b>3.7%</b>	<b>\$ 415.4</b>	<b>\$ 390.5</b>	<b>\$ - 24.9</b>	<b>-6.0%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,414.6	\$ 7,639.3	\$ 224.7	3.0%	\$ 609.3	\$ 597.0	\$ - 12.3	-2.0%
Tax Refunds	\$ - 1,264.9	\$ - 1,261.6	\$ 3.3	-0.3%	\$ - 193.6	\$ - 206.6	\$ - 13.0	6.7%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,226.4	\$ 5,418.9	\$ 192.5	3.7%	\$ 332.5	\$ 302.4	\$ - 30.1	-9.1%
Road Use Tax Fund	\$ 689.1	\$ 729.4	\$ 40.3	5.8%	\$ 53.6	\$ 63.6	\$ 10.0	18.7%
Non-GF Gambling	\$ 215.0	\$ 210.6	\$ - 4.4	-2.0%	\$ 28.9	\$ 23.7	\$ - 5.2	-18.0%
Other State Funds	\$ 19.2	\$ 18.8	\$ - 0.4	-2.1%	\$ 0.6	\$ 0.7	\$ 0.1	16.7%
<b>Local Option Taxes *</b>	<b>\$ 777.1</b>	<b>\$ 800.7</b>	<b>\$ 23.6</b>	<b>3.0%</b>	<b>\$ 75.1</b>	<b>\$ 77.1</b>	<b>\$ 2.0</b>	<b>2.7%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited in the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is now referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.